11 Computerized Time and Money Management

After reading this chapter, you should be able to:

- use legal software to manage client files
- record time and fees and prepare invoices
- enter general receipts and disbursements
- record trust receipts and disbursements
- recover client costs

Large law firms usually have a centralized accounting department to perform all accounting functions, but smaller firms may use a system in which the licensee and his or her support staff all participate in performing these functions. The systems implemented may range from a manual system, to spreadsheet software, to general or **legal accounting software**. Most legal firms use some sort of accounting software, whether it is generic or a dedicated legal accounting program.

Before purchasing accounting software, you should have a good idea of what tasks you want the software to perform. Are you just looking for **time entry and billing**? Do you need software that will do all journal entries for both trust and general accounts, automatically post them, then prepare reports and financial statements? What kind of reports would be useful in your practice? Do you want productivity reports showing how time is being managed, and reports that prepare GST/HST returns? A major consideration for paralegals starting out will be the cost of the system or software, including the cost of updates, support, and renewal fees. Is the system being investigated easy to use, or does it require extensive training? Do you want to be able to access the software through a mobile device when away from the office? The system you select will be determined by the size of the firm and whether the system needs to be centralized or accessed by various individuals.

A few of the popular software providers for legal services firms are Amicus Attorney, Clio, ESILAW, PCLaw, and Intuit QuickBooks. Some software companies store data on a web server, while others store data on your desktop. We are not recommending the use of any particular accounting software, and this chapter will focus generally on software specifically designed for use in legal practices. The main functions we will review are file management, general and trust accounting, and time and billing.

When starting your own practice, you may find the cost of purchasing specialized legal software daunting. However, keep in mind that the time and effort used to set up a good accounting system will save time and money down the road. It is amazing how a bill generated by a computer can look so much more professional and as a result be less likely to be questioned than one produced by other means.

A good system pays off in other ways. Legal software programs have been developed that keep the requirements of the LSUC in mind and with a view to helping licensees comply with bylaw 9. You should be able to produce the records required by the LSUC seamlessly, practically at the press of a button. However, the old adage "garbage in, garbage out" applies even with the best of software. The information produced by your system will only be as good as the information that is put into it. It is important to establish good bookkeeping practices at the outset.

Getting Started with Legal Accounting Software

Once you have selected the accounting system that meets your needs, take the time to set it up properly. Or, you may be employed by a firm that uses particular software, and you will be expected to learn to use it correctly. Although you may experience some initial frustration, the time and effort required to learn any new software is well spent because you will learn how to gain maximum benefit from its features.

Managing Client Files

Rule 1.02 of the *Paralegal Rules of Conduct* defines **conflict of interest** as the existence of a substantial risk that a paralegal's loyalty to or representation of a client would be materially and adversely affected by the paralegal's own interest or duties to another client, a former client, or a third person. The risk must be more than a mere possibility; there must be a genuine, serious risk to the duty of loyalty or to client representation arising from the **retainer.**

When a new client approaches a firm, it is important to conduct a **conflict search** that checks all of the firm's clients, files, calendars, and vendors to determine if there are any previous contacts with a potential client or file that could lead to a conflict of interest. Nothing is more frustrating, embarrassing, and perhaps expensive to a firm than having to withdraw from a file because a conflict was not discovered in a timely manner. If no conflict is found, the firm may then accept the retainer and open a client file.

The system will usually provide two numbers on file opening: a **client number** and a **client matter** or file number. The client number identifies the name and contact information of the client, whereas the file or matter number describes particulars about the area of law for which the firm has been retained. When new client files are opened on the system, the original client number is used.

Once all the information is entered in the system, print a label for the client file. The label contains information about the file, such as the client name, description, client and file numbers, contact information for the client, responsible lawyer, and date the file was opened.

Type of Law

The system will ask for the type of law that applies to the matter. Classifications of law generally include such topics as provincial offences, litigation, real estate, wills and estates, corporate, or miscellaneous. Selecting this feature allows the firm to track useful information regarding the sources of the firm's income. These classifications are also helpful for collecting statistics for preparation of the licensee's annual report to the Law Society of Upper Canada (LSUC), which asks for a breakdown of the percentage of time spent on various types of law.

Closing Client Files

Archiving files is a job that often suffers the indignity of procrastination. But archiving regularly helps to keep your records accurate. It is important to be vigilant when it comes time to close client files. Your legal accounting software will assign and track a closed file number for archived files to make it easy to retrieve the file if it is ever required. Closing the file when the matter is finished helps to produce client reports that are accurate and reliable. Producing a client listing that contains files that were finished but not closed on the system years

ago is frustrating and not helpful. When you want a list of your current clients, you do not want the list to include the names and balances for inactive files. The anticipated date for destruction of a file can be entered when the file is closed.

Files that are to be destroyed should be shredded to protect confidential information contained in them, and a certificate of destruction should be obtained from the company after shredding.

Time Entries and Billing

The time and billing function of accounting software uses explanation codes to indicate the activity that was performed by the licensee. Examples of some commonly used explanation codes are shown in Figure 11.1.

Explanation Codes					
att	attendance at	ct	correspondence to	lr	legal research
cf	correspondence from	dr	drafting	mwc	meeting with client

FIGURE 11.1   Explanation codes

Effort can be saved when entering your time by using an explanation code such as "att" and allowing the system to autofill the phrase to "attendance at." You can then add other information to the explanation such as attendance at "court." In addition to being a time-saving device, explanation codes avoid typographical errors. Codes can be added or deleted when you set up the time and billing system to autofill the description of work you most commonly bill to a file. You are not required to use the codes, but once you become familiar with these shortcuts, you will benefit from the time saved and errors avoided.

Recording Time Entries

There are several different ways software can be used to charge fees to a matter:

- Enter time recorded by hand on a time slip
- Use the time-tracking function of your software to track meetings, telephone calls, and so on
- Charge a **flat rate**
- Convert appointments and phone calls into time entries

Firms usually bill clients based on the amount of time spent working on a file or based on a flat rate or fee. A flat fee is common in files such as traffic court, where the time that will be required is easy to estimate.

When time is being billed by the hour, it is usual to bill in tenths of an hour. Most firms bill time out in six-minute blocks, with each block representing one-tenth of an hour. This makes the calculation of the hourly rate straightforward and has been recognized as reasonable by the profession. It is hard to imagine anyone interrupting what they are doing, taking a phone call, then making a note on the file in less than six minutes. This compromise seems to be acceptable to clients and works for the office. Most time and billing software will round time entries up to the nearest tenth of an hour by default, but this standard can be changed if desired. Figure 11.2 shows a minutes-to-decimal conversion chart to help you calculate blocks of one-tenth of an hour when making time entries. The **billable rate**, which is the

hourly rate charged on a file, is multiplied by the time spent working on the file. Each legal professional working in the firm may have a number of hourly rates charged, depending on the type of matter and the client retainer that was entered into.

Minutes	Decimals
1–6	0.1
7–12	0.2
13–18	0.3
19–24	0.4
25–30	0.5
31–36	0.6
37–42	0.7
43–48	0.8
49–54	0.9
55–60	1.0

FIGURE 11.2 Minutes-to-decimal conversion chart

EXAMPLE

If Justin Case worked for 53 minutes on a file at an hourly rate of $80, the software would calculate the amount to bill as follows:

STEP 1

Convert 53 minutes to tenths of an hour, or 0.9, then multiply 0.9 × $80/hour = $72.

STEP 2

To create time entries, you would go to the time entry section in your software, enter the date and file number, select the name of the person who did the work, enter the time and rate if not automatically selected, and let the software calculate the dollar amount to bill.

STEP 3

An explanation of the work that was done is entered using the explanation code and any additional description you wish to use.

STEP 4

Once all the time entries are completed, this information will be used to produce the invoice to the client. It is important to spellcheck your entries before saving to correct any typographical errors, because you do not want any on the final invoice to the client. Remember, when recording time entries, what you type in the explanation section will appear on the bill.

General Receipts and Disbursements

Your software should allow you to write general or trust cheques and make deposits in the program, then print the required cheque or deposit slip. You will need to purchase special cheques to use this function. If the office does not purchase the pre-formatted cheques, cheques can be written by hand and then entered into the system without printing.

The many advantages of a program that records deposits and cheques in journals and simultaneously posts them to the proper general, special, and client ledger accounts include the following:

- Your deposit and cheque balances will always be current.
- Deposits are automatically posted to the individual client's ledger sheet, and the bank account is debited.
- GST/HST is recorded and tracked for preparation of the GST/HST report. The amount of the payment is posted directly to the account to be charged. For example, if Justin Case wrote a $565 cheque for rent, which includes $65 for GST/HST and $500 for payment of rent, the system automatically journalizes the entries and posts $500 to the rent expense account and $65 to the GST/HST input tax credits account, and also credits the general bank account for $565. All this happens when the cheque is written. If explanation codes are used for writing the cheque—for example, "rnt" for rent expense—the system automatically knows the number of the account where rent expense is to be posted. There is no need to look up the account number on the chart of accounts.
- Even if cheques are manually prepared, they can be entered into the system by completing the pro forma cheque on the system, and the cheque is simply not printed.

Recovering Client Costs

Some costs incurred in an office on behalf of clients are not paid for by cheque. Photocopies, faxes, and postage are examples of amounts that get billed to a client without a corresponding bill being received by the firm for that expense. Some photocopiers, facsimile machines, and postage meters are equipped to provide a printout summarizing photocopies and faxes to be charged to a particular client file. In order to recover these expenses from the client, they must be entered into the system, either periodically or at the time of billing.

Because the expense for these items can be substantial, it is worth taking the time to track and bill them. These entries may appear in a special journal called a **client cost recovery journal** and also in the client ledger. Once entered, they will show up on the invoice produced when the client bill is prepared.

Trust Receipts and Disbursements

A trust receipt can be entered as a deposit to the trust bank account in the system. A deposit slip is printed containing all the information required by the LSUC, such as from whom the money was received, the amount of the deposit, and the method of payment (number on the client's cheque). This slip can be taken to the bank and stamped by the teller along with the firm's deposit book. The amount of the deposit is posted as a debit to the trust bank account and credited to the individual client's trust ledger sheet, enabling you to know the current balance of funds held in trust for each client at all times.

Just as with general cheques, trust cheques can also be recorded and printed using legal accounting software. Once a cheque is entered into the system, the trust bank account will be credited and the client trust ledger will be debited. Some software is programmed to safeguard against anyone writing a cheque against a client's trust ledger if there are insufficient funds in that particular client's account. The system produces a warning that there are insufficient funds in the account. When preparing the trust bank reconciliation, which can also

be done using the software, the system will produce the client trust listing for comparison with the trust bank balance.

End-of-Period Functions

Legal accounting software can produce the financial statements for any period you request, making it easy to get an income statement and balance sheet showing the results from your practice on a regular basis. The software also provides bank reconciliation features for reconciling your general and trust bank accounts.

Year-End

Once you have reviewed your financial statements, adjustments can be prepared and entered using the general journal. Once the balances have been adjusted, the system is ready to prepare your year-end reports. The system will produce a post-closing trial balance with all the closing entries posted to the individual income, expense, and equity accounts, and you are ready to start the new fiscal year.

Maintaining Electronic Records

If electronic records are kept, be sure to have backups of the system. You may be required to produce printed copies of your information by the LSUC. Having to go back and re-create a set of books because of a computer crash, or even a break-in during which office computers are stolen, is a hardship that is easily avoided. Most insurance companies will not cover the cost of paying someone to re-enter all the data; they cover only the cost of restoring the backup.

The Canada Revenue Agency requires all taxpayers to retain their business records in an electronically readable format. The retained records must provide the information necessary to determine the person's liabilities and obligations, or their entitlement to any refund or rebate under the *Income Tax Act*. The taxpayer is not relieved of this responsibility because of the utilization of a third party, such as an accountant or other service provider. All retained records must be clearly labelled and stored in a secure environment in Canada.

TAX TIP

CHAPTER SUMMARY

Legal software can take care of many functions in a firm, such as tracking calendar appointments, tickler systems, and phone calls, as well as maintaining financial records. Many systems have applications that can be accessed from a mobile device, so entries can be made from any location. Some licensees have found this to be a very convenient feature. Maintaining accurate and up-to-date accounting records is a requirement of the Law Society of Upper Canada. By implementing a good legal accounting system that has billing and accounting features, you will meet the Law Society's requirements as well as be more productive. It is important to be familiar with how legal software works because, at the very least, employees hired by legal firms are usually expected to be familiar with relevant software applications used in the management of a law practice.

KEY TERMS

billable rate, 274
client cost recovery journal, 276
client matter, 273
client number, 273
conflict of interest, 273
conflict search, 273
flat rate, 274
legal accounting software, 272
retainer, 273
time entry and billing, 272

FURTHER READING

Ellen Freedman & Claire Barnes, "Capturing More Time (and Billing It Too!)," online: CBA PracticeLink <http://www.cba.org/cba/practicelink/tayp/capturingtime.aspx>.

Law Society of Upper Canada, "Guide to Opening Your Practice for Paralegals," online: <http://www.lsuc.on.ca/with.aspx?id=2147499334>.

Law Society of Upper Canada, "Practice Management Guidelines," online: <http://www.lsuc.on.ca/with.aspx?id=2147490535>.

PUT IT INTO PRACTICE

Case Example: Simulation Exercises

The following simulation exercises can be used to practise making entries using various types of legal accounting software. The entries should be adapted as needed to correspond with the features of the legal software being used. Although the Law Society of Upper Canada does not require paralegals to learn how to use legal accounting software for licensing purposes, students may find themselves employed in a firm that uses such software, so it is useful to get some practice. Students may wish to inquire about getting a free download from an accounting software provider to try out a system. Your role as a paralegal or law clerk should be entered when setting up the information regarding the firm.

The exercises are designed to demonstrate the following features:

- Preparation of the accounting system by entering accounting, lawyer, paralegal, and law clerk information
- How to open files for new clients
- Preparation of time entries on client files
- Recording receipts and disbursements in general and trust accounts
- Conducting conflict searches for new clients
- Recovering costs for client disbursements such as photocopies and faxes
- Preparation of invoices and transfer of funds from trust to general bank accounts
- Closing a client file
- Preparing financial reports

Simulation Exercise 11.1: Preparing the Accounting System

Set up your system by inserting the name, address, and telephone numbers of the law firm. You should also enter a GST registration number such as RT 112233. Make any other adjustments to the system settings that your instructor thinks are necessary. The names of any paralegals, lawyers, and law clerks working in the firm should be added to the system as well as their billable rates for various files.

Simulation Exercise 11.2: Creating a Matter for a New Client

You should learn the terminology that applies to the software you are using. Help resources are usually available and should be consulted as needed. You must create a file for each new client. New files are often referred to as "matters" and each client matter is given a unique number. Client matters or files are usually numbered consecutively, and the numbers are assigned by the system. Each new client will also have an assigned client number, which is used for all matters related to that particular client. So client no. 1 might have several matters or files, each with a different matter number. It is useful to have a client number because this avoids having to rekey the client's name and address each time a new matter or file is opened for that particular client.

a. Create a new client matter on your system titled "*Karen Fisher v Reveal Cosmetics*." Karen Fisher has come to Justin Case to see about launching a product liability suit against Reveal Cosmetics. Justin feels she has a good case.

The type of law is litigation, and you should select the rate at which the file is to be billed. Fill in the description box for the file by naming the client and the defendant. The description will be the reference line used on the invoice sent to the client; it also appears on the file label. Enter the client's name, address, and telephone number in the areas provided by your system. The system will assign Fisher client no. 1.

Karen Fisher has asked the firm to represent her in a second matter against James King regarding an encroachment on her property. Open a second file for this client, not allowing the system to allocate a new client number. Keep the same client number and allow the system to create a new matter or file number. The firm has quoted a flat rate for this matter of $3,500. Enter this information into your system.

b. Using the information you have learned, create a new client matter for a second client, Robert Crookshank. Title it "Robert Crookshank re Traffic Court." Crookshank will be represented in this matter by a different paralegal in the firm at a different rate. The client's address is 123 York Street, Your Town, Ontario, and his telephone number is (555) 235-2323. The system will automatically assign client no. 2 to Crookshank because no. 1 is taken up by Karen Fisher, and it will allocate file no. 3 to the matter.

Once you have completed this exercise, prepare a list of clients using your software.

Simulation Exercise 11.3: Recording Time and Fees

This exercise describes how to enter hours recorded on a time slip using legal accounting software. When entering time, use the minutes-to-decimal conversion chart provided in this chapter. Use explanation codes, if available, to describe the work done, such as "mwc" for "meeting with client." You can add to the description by including further information such as "to discuss liability suit." You may wish not to charge for the initial interview. The software will allow you to show no charge. It is a good idea to enter this time and show it as not being charged so that the client will be able to appreciate the fact that she received a free consultation.

Enter the following time entries for Justin Case on the *Karen Fisher v Reveal Cosmetics* file using appropriate dates. Remember to convert time to tenths of an hour when recording time entries.

Month	3	Meeting with client to discuss liability suit—½ hour at no charge
	5	Instructing legal staff—20 minutes
	9	Legal research by the law clerk for 1 hour and 15 minutes
	15	Review correspondence from opposite party with offer to settle —15 minutes
	18	Meeting with client to discuss settlement offer—35 minutes

Justin has also provided a time slip setting out the following services performed on the Robert Crookshank file. Record the time entries.

Month	4	Meeting with client to discuss traffic charge—½ hour
	5	Review of HTA sections and legal research—1 hour and 15 minutes
	9	Attendance at traffic court and negotiation of plea—2 hours

Justin also worked on the *Karen Fisher v J King* easement dispute file. Record the time entries.

Month	5	Researching cases on easements—2 hours and 20 minutes
	15	Correspondence with opposite party—½ hour
	20	Response with offer to settle for $3,000—15 minutes
	25	Meeting with client to sign minutes of settlement—20 minutes
	30	Report to client—20 minutes

Produce a report to show the time entries you have made. Your system should allow you to re-enter the system to make corrections to any incorrect time entries.

Simulation Exercise 11.4: Recording Trust Receipts and Retainers

Before a retainer can be entered into a client file or matter, a file must be opened for that client matter on the system. If you do not already have a file for a client, open a file. Then enter the retainers received by depositing the funds to the trust bank account.

The following retainers were received and new files opened by the firm. Conduct a conflict search and create a new client file for the following persons: Susan Silver, David Silver, Angela Finelli, Stephen Bell, and Peter Stubbs. You or your instructor can make up the description, address, and telephone numbers for each client. Use the preferred default rate for all new files.

Date 20**		Transaction Details	Amount	Method	Total
Month	1	*Karen Fisher v J King* re easement—retainer	800	cheque	800
	3	Susan Silver re traffic retainer	900	cr. card	900
	3	Robert Crookshank re traffic court—retainer	700	cert. cheque	700
	3	David Silver re Small Claims Court—retainer	100	cr. card	100
	8	Angela Finelli re traffic —no retainer received	Open client file only		
	10	Stephen Bell, Small Claims Court —no retainer received	Open client file only		
	11	Peter Stubbs re Small Claims Court—retainer	200	cash	200
	30	Received from J. King—settlement on *Karen Fisher v J King* file	3,000	bank draft	3,000

Simulation Exercise 11.5: Recording General and Trust Disbursements

Record the following transactions in your legal software, being careful to use the correct bank account for each transaction. If funds are available in trust for any client, use trust funds; if not, you need to use the general bank account.

Date 20**		Transaction Details	Amount	HST	Total
Month	1	Paid rent to Minto Management (chq. #G198)	1,200	156	1,356
	3	Paid membership dues to the Law Society of Upper Canada (chq. #G199)	600	78	678
	6	Expense recovery: The following charges were recorded for disbursements made in the office, which are to be billed to clients. • Photocopies: (.25 each) – David Silver 20 copies – Stephen Bell 10 copies – Crookshank 30 copies • Faxes: (.30 each) – David Silver 3 pages – Stephen Bell 8 pages – Peter Stubbs 2 pages	Calculate and enter under expense recovery		

Date 20**		Transaction Details	Amount	HST	Total
	12	Paid traffic ticket to Minister of Finance on behalf of Susan Silver (chq. #T10)	90	0	90
	26	Paid Royal Bank—interest on loan (chq. #G200)	120	0	120
	26	Paid Minister of Finance to file statement of defence re David Silver (chq. #T11)	40	0	40
	27	Paid fine on behalf of Robert Crookshank to Minister of Finance (chq. #T12)	500	0	500
	27	Paid Minister of Finance to issue notice of garnishment on Stubbs file (chq. #T13)	100	0	100
	28	Paid to issue claim re Stephen Bell (chq. #G201) (no retainer)	75	0	75

Simulation Exercise 11.6: Preparing Invoices to Clients

Prepare invoices for the following client files:

- *Karen Fisher v Reveal Cosmetics*
- *Karen Fisher v J King*
- Robert Crookshank re Traffic Court
- Peter Stubbs re Small Claims Court: you have been asked to prepare a quick bill and charge the client $250 for services rendered plus $3.50 for disbursements incurred but not yet recorded. Record the disbursement at the time it is entered on the bill.

Simulation Exercise 11.7: Conducting a Conflict Search and Closing a Client File

John King has called your office to set up an appointment regarding starting an action against Peter Silver. Conduct a conflict search to determine whether there is a potential conflict of interest.

You have completed all work to be done on the *Karen Fisher v J King* file. Close the file on your system.

Simulation Exercise 11.8: Reconciling the Bank Statement and Preparing Reports

Using the bank statement for Justin Case's trust account for the month, reconcile the bank statement with your records.

ROYAL BANK OF MONEY
P.O. Box 5011, Station A
Montreal, QC H3C 3B8

Trust Bank Account Statement

Justin Case, Paralegal 135 Main Street Yourtown, Ontario K3P 1G9	Month 1, 20** to Month 3*, 20**
	Account number: 0216-520635

ACCOUNT SUMMARY FOR THIS PERIOD

Opening Balance at Beginning of Month		$1,000.00
Total Deposits and Credits	+	$5,800.00
Total Cheques and Debits	–	$730.00
Closing Balance at End of Month	=	$6,070.00

ACCOUNT ACTIVITY DETAILS

Date	Description	Cheques and Debits	Deposits and Credits	Balance
Mo. 01	Deposit		800.00	1,800.00
Mo. 03	Deposit		900.00	2,700.00
Mo. 03	Deposit		800.00	3,500.00
Mo. 03	Deposit		100.00	3,600.00
Mo. 12	Deposit		200.00	3,800.00
Mo. 18	Chq. #T10	90.00		3,710.00
Mo. 24	Chq. #T11	40.00		3,670.00
Mo. 27	Chq. #T12	500.00		3,170.00
Mo. 27	Chq. #T13	100.00		3,070.00
Mo. 30	Deposit		3,000.00	6,070.00
	Closing Balance			6,070.00

Please check this Account Statement without delay and advise us of any error or omission within 45 days of the statement date.

Royal Bank of Money GST Registration Number: R1052481028

On your system, prepare a GST/HST report for last month.
Prepare an income statement and a balance sheet for the month.

REVIEW QUESTIONS

Short Answer

Give a full answer for each question:

1. How do you determine what the best legal accounting system or software is for your practice?

2. What are some of the advantages of having a computerized legal accounting system?

3. What are the rules established under bylaw 9 regarding the maintenance of electronic records?

4. What are the key considerations in opening a new client file?

5. Why should you close files in a timely and systematic manner?